

Message Text

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PAGE 01 SAN JO 02130 010924Z

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 /084 W

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R 301845Z APR 76

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 3684

INFO AMEMBASSY GUATEMALA

LIMITED OFFICIAL USE SAN JOSE 2130

GUATEMALA FOR ROCAP

E.O. 11652: N/A

SUBJECT: NEW MINISTER'S ASSESSMENT OF THE ECONOMY

1. BEGIN UNCLASSIFIED. IN A PRESS CONFERENCE, DRGR FERNANDO NARANJO, NEWLY NAMED DEVELOPMENT ADVISOR TO THE PRESIDENT WITH THE RANK OF MINISTER, OFFERED THE FOLLOWING ASSESSMENT OF THE STATE OF THE COSTA RICAN ECONOMY AND ITS PROSPECTS FOR 1976.

(A) NARANJO STATED THAT REAL GROWTH IN 1975 AMOUNTED TO SV4 PERCENT, WITH THE AGRICULTURAL SECTOR ALONE GROWING BY AN IMPRESSIVE 6 PERCENT. IN NARANJO'S VIEW, THE 1975 GROWTH RATE AUGURS WELL FOR AN EXPECTED 1976 OVERALL GROWTH RATE OF 6 PERCENT.

(B)SBN SPEAKING OF THE BALANCE OF TRADE, NARANJO STATES THAT THE LARGE DEFICIT IN 1974 OF \$281 MILLION RESULTED FROM A 57 PERCENT INCREASE IN THE PRICE OF IMPORTS. HE ADDED THAT IN 1975, THE COMMERCIAL DEFICIT AMOUNTED TO ONLY \$212 MILLION, A DROP OF 24 PERCENT. HE DID NOT SPECULATE ON THE COMMERCIAL DEFICIT EXPECTED IN 1976.

(C) NARANJO CHARACTERIZED THE FISCAL SITUATION AS
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PAGE 02 SAN JO 02130 010924Z

"DIFFICULT, BUT MANAGEABLE." HE STATED THAT THE

GOVERNMENT BUDGET DEFICIT FOR 1976 IS EXPECTED TO BE ABOUT \$70 MILLION, THE SAME AS THE 1975 DEFICIT. THIS EXPLAINS, HE ADDED, THE GOVERNMENT'S INTEREST IN THE TAX REFORM PACKAGE BEING DEBATED IN THE ASSEMBLY. (D) SPEAKING OF INFLATION, NARANJO SAID THAT RETAIL PRICE INCREASES HAD DROPPED FROM 30 PERCENT IN 1974 TO 20 PERCENT IN 1975. DURING THE SAME TWO YEARS THE WHOLESALE PRICE INDEX SHOWED PRICE INCREASES OF 38 AND 14 PERCENT RESPECTIVELY. FOR 1976, NARANJO EXPECTS THE OVERALL PRICE LEVEL TO INCREASE AROUND 12 PERCENT, WHICH IS, IN HIS WORDS, "... THE PERCENT INCREASE IN THE MAJORITY OF INDUSTRIALIZED COUNTRIES."

2. ACCORDING TO THE PRESS REPORTS, SOME NEWSMEN QUESTIONED NARANJO'S ASSERTIONS REGARDING THE LEVEL OF SERVICE INCREASES, STATING THAT IT APPEARED TO THEM AS CONSUMERS THAT PRICES HAD INCREASED BY A MUCH LARGER PERCENTAGE. NARANJO ANSWERED THAT THE PRICE SURVEY STUDIES WERE CARRIED OUT IN SUPERMARKETS AND OTHER RETAIL STORES. HE CHARACTERIZED THE PRICE STUDIES AS RELIABLE, AND SAID THAT INTERNATIONAL ORGANIZATIONS HAVE ANALYZED THE GOVERNMENT'S STATISTICS AND FOUND THEM ACCURATE. END UNCLASSIFIED

3. BEGIN LIMITED OFFICIAL USE. COMMENT. NARANJO'S FIGURE OF 3.4 PERCENT GROWTH IN 1975 IS HIGHER THAN PREVIOUS EMBASSY AND GOVERNMENT ESTIMATES OF 1975 REAL GROWTH WHICH RANGED FROM 1 TO 3 PERCENT. UNFORTUNATELY, FINAL NATIONAL INCOME DATA FOR 1975 IS NOT YET AVAILABLE FROM THE CENTRAL BANK. THE EMBASSY, LIKE THE REPORT,

IS SKEPTICAL OF THE PRICE DATA FOR 1975. PERHAPS THE METHOD OF COMPUTING THE INDICES WAS CHANGED IN MID-STREAM OR PRICE CHANGES RESULTING FROM TAX INCREASES WERE NOT INCLUDED. THE EMBASSY WILL SEEK FURTHER INFORMATION ON THESE POINTS. END LOU. TODMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, ECONOMIC GROWTH, ECONOMIC ESTIMATES, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: powellba
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANJO02130
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760167-0624
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976042/aaaaabks.tel
Line Count: 98
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: powellba
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2004 by coburnhl>; APPROVED <26 OCT 2004 by powellba>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW MINISTER'S ASSESSMENT OF THE ECONOMY
TAGS: ECON, CS, (NARANJO, FERNANDO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006